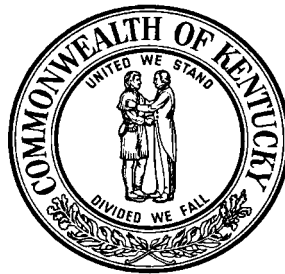


**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

May 1, 2003



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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the Marshall County Sheriff's Settlement - 2002 Taxes as of May 1, 2003.

We engaged Kapp & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC evaluated the Marshall County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure





Kapp & Company, PLLC

Certified Public Accountants &
Business Advisors

**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

May 1, 2003

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MARSHALL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

May 1, 2003

Kapp & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Marshall County Sheriff as of May 1, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$12,545,274 for the districts for 2002 taxes, retaining commissions of \$486,130 to operate the Sheriff's office. The Sheriff distributed taxes of \$12,045,064 to the districts for 2002 Taxes. Taxes of \$262 are due to the districts from the Sheriff and refunds of \$704 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Have His Tax Settlement Approved By Fiscal Court By September 1 Of Each Year
- The Sheriff Should Have All Funds In All Banks Covered By Insurance Or Pledged Collateral
- The Sheriff Should Include Franchise Taxes In His Annual Settlement And Transfer Any Delinquent Bills To The County Clerk

Deposits:

The Sheriff's deposits were uninsured and uncollateralized in the amount of \$55,900 by bank securities or bonds.

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Kapp & Company, PLLC
Certified Public Accountants &
Business Advisors

To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the Marshall County Sheriff's Settlement - 2002 Taxes as of May 1, 2003. This tax settlement is the responsibility of the Marshall County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Marshall County Sheriff's taxes charged, credited, and paid as of May 1, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have His Tax Settlement Approved By Fiscal Court By September 1 Of Each Year
- The Sheriff Should Have All Funds In All Banks Covered By Insurance Or Pledged Collateral
- The Sheriff Should Include Franchise Taxes In His Annual Settlement And Transfer Any Delinquent Bills To The County Clerk

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
November 14, 2003

MARSHALL COUNTY
TERRY ANDERSON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

May 1, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,184,907	\$ 3,696,100	\$ 3,635,250	\$ 1,553,034
Tangible Personal Property	213,488	399,888	426,950	1,584,401
Intangible Personal Property				137,811
Increases Through Exonerations	3,543	11,441	10,871	4,849
Franchise Corporation	108,712	246,571	232,264	
Penalties	9,861	31,462	29,368	13,527
Adjusted to Sheriff's Receipt	(18)	(5,912)		23
Gross Chargeable to Sheriff	<u>\$ 1,520,493</u>	<u>\$ 4,379,550</u>	<u>\$ 4,334,703</u>	<u>\$ 3,293,645</u>
<u>Credits</u>				
Exonerations	\$ 16,812	\$ 40,853	\$ 45,932	\$ 114,177
Discounts	20,916	61,010	60,702	52,510
Delinquents:				
Real Estate	48,995	148,379	150,314	64,217
Tangible Personal Property	4,832	8,310	9,788	16,343
Intangible Personal Property				11,329
Uncollected Franchise	<u>20,575</u>	<u>42,362</u>	<u>44,761</u>	
Total Credits	<u>\$ 112,130</u>	<u>\$ 300,914</u>	<u>\$ 311,497</u>	<u>\$ 258,576</u>
Taxes Collected	\$ 1,408,363	\$ 4,078,636	\$ 4,023,206	\$ 3,035,069
Less: Commissions *	<u>60,143</u>	<u>151,874</u>	<u>144,835</u>	<u>129,278</u>
Taxes Due	\$ 1,348,220	\$ 3,926,762	\$ 3,878,371	\$ 2,905,791
Taxes Paid	1,346,486	3,921,955	3,873,060	2,903,563
Refunds (Current and Prior Year)	<u>1,734</u>	<u>5,249</u>	<u>5,310</u>	<u>2,229</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ (442)</u>	<u>\$ 1</u>	<u>\$ 1</u>

* and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY
TERRY ANDERSON, SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
May 1, 2003
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	7,851,517
3.6% on	\$	4,023,204
1% on	\$	660,554

** Special Taxing Districts:

Library District	\$	65
Extension District		(4)
Hospital District		(65)
City of Hardin District		12
Harvey-Brewers Fire District		57
Fairdealing-Olive Fire District		127
East Marshall District		(57)
Briensburg-Draffensville Fire District		(74)
Aurora-Ross Fire District		<u>(503)</u>
Due Districts or (Refund Due Sheriff)	\$	<u><u>(442)</u></u>

The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT

May 1, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of May 1, 2003, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of January 22, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit for franchise taxes at Union Planters Bank, leaving \$55,900 of public funds uninsured and unsecured.

MARSHALL COUNTY
 NOTES TO FINANCIAL STATEMENT
 May 1, 2003
 (Continued)

Note 2. Deposits (Continued)

In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of January 22, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>55,900</u>
Total	<u><u>\$ 155,900</u></u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 25, 2002 through May 1, 2003.

Note 4. Interest Income

The Marshall County Sheriff earned \$4,785 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of November 14, 2003, the Sheriff owes \$974 in interest to the school district and \$2,702 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Marshall County Sheriff collected \$63,908 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Marshall County Sheriff collected \$8,244 of advertising costs and \$3,435 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs and fees to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

MARSHALL COUNTY
TERRY ANDERSON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of May 1, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Have His Tax Settlement Approved By Fiscal Court By September 1 Of Each Year

During our audit, we found that the Sheriff did not prepare and present his 2002 tax settlement for approval by September 1 as required by KRS 134.310(1). KRS 134.310(1) states "the report of the state and local settlement shall be filed in the County Clerk's office and approved by the County Judge/Executive no later than September 1 of each year". The Sheriff's 2002 tax settlement was not approved until October 15, 2003. We recommend the Sheriff prepare and present his tax settlements for approval by September 1 of each year as required by KRS 134.301(1).

Sheriff's Response:

The Sheriff's office experienced computer problems.

The Sheriff Should Have All Funds In All Banks Covered By Insurance Or Pledged Collateral

According to KRS 66.480(1)(d) and KRS 41.240(4), depository institutions should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. On January 22, 2003, the franchise tax account at Union Planters Bank was undercollateralized by \$ 55,900. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response:

No response.

MARSHALL COUNTY
TERRY ANDERSON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of May 1, 2003
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff Should Include Franchise Taxes In His Annual Settlement And Transfer Any Delinquent Bills To The County Clerk

There was no settlement done on the franchise taxes collected during the year. A settlement should have been performed for the period of April 1, 2002 to May 1, 2003 and included in the approved settlement. Also, any tax bills delinquent at that time should have been transferred to the County Clerk for collection. We recommend the Sheriff include franchise tax collections in his annual settlement and transfer any delinquent bills to the County Clerk.

Sheriff's Response:

No response.

PRIOR YEAR:

The comment regarding funds on deposit with banks is a repeated comment.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Kapp & Company, PLLC
Certified Public Accountants &
Business Advisors

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
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Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Marshall County Sheriff's Settlement - 2002 Taxes as of May 1, 2003, and have issued our report thereon dated November 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Marshall County Sheriff's Settlement - 2002 Taxes as of May 1, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Have His Tax Settlement Approved By Fiscal Court By September 1 Of Each Year
- The Sheriff Should Have All Funds In All Banks Covered By Insurance Or Pledged Collateral

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marshall County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff Should Include Franchise Taxes In His Annual Settlement And Transfer Any Delinquent Bills To The County Clerk

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in dark ink that reads "Kapp & Company, PLLC". The script is cursive and fluid.

Kapp & Company, PLLC

Audit fieldwork completed -
November 14, 2003

